

# **Finance Plan**

**City of Appleton, Minnesota**

**\$1,595,000**

**General Obligation Capital Improvement Plan  
Bonds, Series 2022A**

**November 17, 2021**



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## Executive Summary

The following is a summary of the recommended terms for the issuance of \$1,595,000 General Obligation Capital Improvement Plan Bonds, Series 2022A (the “Bonds” or “2022A Bonds”). Additional information on the proposed finance plan and issuing process can be found after the Executive Summary, in the Issue Overview and Attachment 3 – Related Considerations.

<b>Purpose</b>	Proceeds from the Bonds will be used to fund a new library.
<b>Security</b>	The Bonds will be a general obligation of the City. The City will pledge ad valorem taxes for payment of the Bonds.
<b>Repayment Term</b>	The Bonds will mature annually each December 15 in the years 2024 - 2045. Interest on the Bonds will be payable on June 15, 2022 and semiannually thereafter on each June 15 and December 15.
<b>Estimated Interest Rate</b>	Average coupon: 2.59% True interest cost (TIC): 2.74%
<b>Prepayment Option</b>	Bonds maturing on and after December 15, 2031 will be subject to redemption on December 15, 2030 and any day thereafter at a price of par plus accrued interest.
<b>Rating</b>	The Bonds will not be rated.
<b>Tax Status</b>	The Bonds will be tax-exempt, bank qualified obligations.
<b>Risk Factors</b>	There are certain risks associated with all debt. Risk factors related to the Bonds are discussed in Attachment 5.
<b>Type of Bond Sale</b>	Negotiated Sale
<b>Pricing Date</b>	Wednesday, January 19, 2022
<b>Council Consideration</b>	Wednesday, January 19, 2022 @ 5:30 PM

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## Issue Overview

### Purpose

Proceeds from the Bonds will be used to fund a new library. The Bonds have been sized based on the City's not to exceed limit set in its Capital Improvement Plan, and the annual principal and interest limit in Minnesota Statutes, Section 475.521. The table below contains the sources and uses of funds for the bond issue.

#### Sources Of Funds

Par Amount of Bonds	\$1,595,000.00
<b>Total Sources</b>	<b>\$1,595,000.00</b>

#### Uses Of Funds

Total Underwriter's Discount (1.960%)	31,262.00
Costs of Issuance	19,250.00
Deposit to Capitalized Interest (CIF) Fund	89,994.40
Deposit to Project Construction Fund	1,450,000.00
Rounding Amount	4,493.60
<b>Total Uses</b>	<b>\$1,595,000.00</b>

### Authority

The Bonds will be issued pursuant to the authority of Minnesota Statutes, Chapter 475.521 (the "Act"). Under the Act, a capital improvement is a major expenditure of City funds for the acquisition or betterment of public lands, buildings, or other improvements used, such as a city hall, library, public safety, or public works facility, which has a useful life of five years or more.

Before issuing bonds under a Capital Improvement Plan ("CIP"), the City must hold a public hearing on the CIP and the proposed bonds, and must then approve the CIP and authorize the issuance of the bonds by at least a 3/5 majority.

If a petition signed by voters equal to at least 5 percent of the votes cast in the last general election requesting a vote on the issuance of bonds is received by the clerk within 30 days after the public hearing, then the bonds may not be issued unless approved by the voters at an election. The CIP hearing was held on August 18, 2021 and the City did not receive a petition.

### Structure

The Bonds have been structured with capitalized interest through the June 15, 2024 payment to minimize the impact to the City's property tax levy in the early years. The 2025 through 2045 payments have been structured to result in relatively level annual debt service payments.

The proposed structure for the bond issue and preliminary debt service projections are illustrated in Attachment 1.

### Security and Source of Repayment

The Bonds will be general obligations of the City. The finance plan relies on the following assumptions for the revenues used to pay debt service, as provided by City staff:

- Property Taxes. The revenues needed to pay debt service on the Bonds are expected to come from property tax levies. The initial projections show an annual tax levy, averaging \$103,442 annually, is needed, which includes the statutory requirement of 105% of debt service. The levy will be adjusted annually. The initial tax levy will be made in 2023 for taxes payable in 2024.

The table in Attachment 2 shows the estimated flow of funds, including the 5% overlevy.

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## Plan Rationale

The Finance Plan recommended in this report is based on a variety of factors and information provided by the City related to the financed project and City objectives, Northland's knowledge of the City and our experience in working with similar cities and projects. The issuance of General Obligation Capital Improvement Plan Bonds provides the best means of achieving the City's objectives and cost effective financing. The City has successfully issued and managed this type of debt for previous projects.

## Issuing Process

The City has engaged Northland to act as underwriter for the Bonds pursuant to federal securities regulations. Northland will purchase the Bonds in an "arm's length" negotiated sale. The City has chosen this approach for a variety of reasons, including flexibility in timing, ability of the underwriter to explain the Bonds to investors and cultivate investor interest in the issue in advance of the sale, certainty of underwriting commitment and transparency of pricing process. The calendar of events for the issuing process can be found in Attachment 4.

In authorizing the issuance, the City Council will adopt a trigger (parameters) resolution. The resolution authorizes the Mayor and the City Administrator to execute a bond purchase agreement if the True Interest Cost of the Bonds is less than 3.00%. The bond purchase agreement will be ratified by the City Council at its next meeting. This approach gives the City greater flexibility in selling the Bonds when market conditions produce the desired results, rather than accepting the conditions that exist on a specific Council meeting date.

**Underwriter:** Northland Securities, Inc., Minneapolis, Minnesota

**Bond Counsel:** Taft Stettinius & Hollister LLP, Minneapolis, Minnesota

**Paying Agent:** Northland Trust Services, Inc., Minneapolis, Minnesota

## Attachment 1 – Preliminary Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
02/16/2022	-	-	-	-	-
06/15/2022	-	-	12,764.40	12,764.40	-
12/15/2022	-	-	19,307.50	19,307.50	32,071.90
06/15/2023	-	-	19,307.50	19,307.50	-
12/15/2023	-	-	19,307.50	19,307.50	38,615.00
06/15/2024	-	-	19,307.50	19,307.50	-
12/15/2024	20,000.00	1.350%	19,307.50	39,307.50	58,615.00
06/15/2025	-	-	19,172.50	19,172.50	-
12/15/2025	60,000.00	1.550%	19,172.50	79,172.50	98,345.00
06/15/2026	-	-	18,707.50	18,707.50	-
12/15/2026	60,000.00	1.550%	18,707.50	78,707.50	97,415.00
06/15/2027	-	-	18,242.50	18,242.50	-
12/15/2027	60,000.00	1.850%	18,242.50	78,242.50	96,485.00
06/15/2028	-	-	17,687.50	17,687.50	-
12/15/2028	65,000.00	1.850%	17,687.50	82,687.50	100,375.00
06/15/2029	-	-	17,086.25	17,086.25	-
12/15/2029	65,000.00	2.050%	17,086.25	82,086.25	99,172.50
06/15/2030	-	-	16,420.00	16,420.00	-
12/15/2030	65,000.00	2.050%	16,420.00	81,420.00	97,840.00
06/15/2031	-	-	15,753.75	15,753.75	-
12/15/2031	65,000.00	2.200%	15,753.75	80,753.75	96,507.50
06/15/2032	-	-	15,038.75	15,038.75	-
12/15/2032	70,000.00	2.200%	15,038.75	85,038.75	100,077.50
06/15/2033	-	-	14,268.75	14,268.75	-
12/15/2033	70,000.00	2.350%	14,268.75	84,268.75	98,537.50
06/15/2034	-	-	13,446.25	13,446.25	-
12/15/2034	70,000.00	2.350%	13,446.25	83,446.25	96,892.50
06/15/2035	-	-	12,623.75	12,623.75	-
12/15/2035	75,000.00	2.500%	12,623.75	87,623.75	100,247.50
06/15/2036	-	-	11,686.25	11,686.25	-
12/15/2036	75,000.00	2.500%	11,686.25	86,686.25	98,372.50
06/15/2037	-	-	10,748.75	10,748.75	-
12/15/2037	75,000.00	2.650%	10,748.75	85,748.75	96,497.50
06/15/2038	-	-	9,755.00	9,755.00	-
12/15/2038	80,000.00	2.650%	9,755.00	89,755.00	99,510.00
06/15/2039	-	-	8,695.00	8,695.00	-
12/15/2039	80,000.00	2.650%	8,695.00	88,695.00	97,390.00
06/15/2040	-	-	7,635.00	7,635.00	-
12/15/2040	85,000.00	2.750%	7,635.00	92,635.00	100,270.00
06/15/2041	-	-	6,466.25	6,466.25	-
12/15/2041	85,000.00	2.750%	6,466.25	91,466.25	97,932.50
06/15/2042	-	-	5,297.50	5,297.50	-
12/15/2042	90,000.00	2.750%	5,297.50	95,297.50	100,595.00
06/15/2043	-	-	4,060.00	4,060.00	-
12/15/2043	90,000.00	2.900%	4,060.00	94,060.00	98,120.00
06/15/2044	-	-	2,755.00	2,755.00	-
12/15/2044	95,000.00	2.900%	2,755.00	97,755.00	100,510.00
06/15/2045	-	-	1,377.50	1,377.50	-
12/15/2045	95,000.00	2.900%	1,377.50	96,377.50	97,755.00
<b>Total</b>	<b>\$1,595,000.00</b>	<b>-</b>	<b>\$603,149.40</b>	<b>\$2,198,149.40</b>	<b>-</b>

### Yield Statistics

Bond Year Dollars	\$23,244.74
Average Life	14.574 Years
Average Coupon	2.5947784%
Net Interest Cost (NIC)	2.7292691%
True Interest Cost (TIC)	2.7418825%
Bond Yield for Arbitrage Purposes	2.5741660%
All Inclusive Cost (AIC)	2.8474071%

## Attachment 2 – Preliminary 105% Schedule

Date	Total P+I	CIF	105% Levy	Levy Year	Collection Year
12/15/2022	32,071.90	(32,071.90)	-	-	-
12/15/2023	38,615.00	(38,615.00)	-	-	-
12/15/2024	58,615.00	(19,307.50)	41,272.88	2023	2024
12/15/2025	98,345.00	-	103,262.25	2024	2025
12/15/2026	97,415.00	-	102,285.75	2025	2026
12/15/2027	96,485.00	-	101,309.25	2026	2027
12/15/2028	100,375.00	-	105,393.75	2027	2028
12/15/2029	99,172.50	-	104,131.13	2028	2029
12/15/2030	97,840.00	-	102,732.00	2029	2030
12/15/2031	96,507.50	-	101,332.88	2030	2031
12/15/2032	100,077.50	-	105,081.38	2031	2032
12/15/2033	98,537.50	-	103,464.38	2032	2033
12/15/2034	96,892.50	-	101,737.13	2033	2034
12/15/2035	100,247.50	-	105,259.88	2034	2035
12/15/2036	98,372.50	-	103,291.13	2035	2036
12/15/2037	96,497.50	-	101,322.38	2036	2037
12/15/2038	99,510.00	-	104,485.50	2037	2038
12/15/2039	97,390.00	-	102,259.50	2038	2039
12/15/2040	100,270.00	-	105,283.50	2039	2040
12/15/2041	97,932.50	-	102,829.13	2040	2041
12/15/2042	100,595.00	-	105,624.75	2041	2042
12/15/2043	98,120.00	-	103,026.00	2042	2043
12/15/2044	100,510.00	-	105,535.50	2043	2044
12/15/2045	97,755.00	-	102,642.75	2044	2045
<b>Total</b>	<b>\$2,198,149.40</b>	<b>(89,994.40)</b>	<b>\$2,213,562.75</b>		

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## Attachment 3 – Related Considerations

### Bank Qualification

We understand the City (in combination with any subordinate taxing jurisdictions or debt issued in the City's name by 501(c)3 corporations) anticipates issuing \$10,000,000 or less in tax-exempt debt during this calendar year. Therefore the Bonds will be designated as "bank qualified" obligations pursuant to Federal Tax Law.

### Arbitrage Compliance

The Bonds are expected to qualify for the "small issuer" exemption related to arbitrage rebate.

The City should become familiar with the various Arbitrage Compliance requirements for this bond issue. The Resolution for the Bonds prepared by Bond Counsel explains the requirements in greater detail.

### Continuing Disclosure

Type: Limited

Dissemination Agent: Northland Securities

The requirements for continuing disclosure are governed by SEC Rule 15c2-12. The primary requirements of Rule 15c2-12 actually fall on underwriters. The Rule sets forth due diligence needed prior to the underwriter's purchase of municipal securities. Part of this requirement is obtaining commitment from the issuer to provide continuing disclosure. The document describing the continuing disclosure commitments (the "Undertaking") is contained in the Official Statement that will be prepared to offer the Bonds to investors.

The City has less than \$10,000,000 of outstanding public debt and will provide "limited" continuing disclosure. Historically, limited disclosure only required that certain information be provided upon request. The 2010 amendments to the Rule added the provision that issuers must annually provide financial information and operating data which is customarily prepared by the issuer and is publicly available. Issuers must also report certain "material events." Material events set forth in the Rule, including, but not limited to, bond rating changes, call notices, and the issuance of "financial obligations" (such as PFA loans, leases, or bank placements) must be reported within ten days of occurrence. Northland currently serves as dissemination agent for the City. We assist with getting your annual report filed in compliance with limited continuing disclosure regulations.

### Premiums

In the current market environment, it is likely that the proposed pricing will include premiums. A premium price occurs when the underwriter pays the City an amount in excess of the par amount of a maturity in exchange for a higher coupon (interest rate). The use of premiums reflects the underwriter's view on future market conditions, tax considerations for investors and other factors. Ultimately, the true interest cost calculation ("TIC") will indicate the overall cost to the City, regardless of premium.

A premium price produces additional funds that can be used in several ways:

- The premium means that the City needs less bond proceeds and can reduce the size of the issue by the amount of the premium.
- The premium can be deposited in the Construction Fund and used to pay additional project costs, rather than used to reduce the size of the issue.



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- The premium can be deposited in the Debt Service Fund and used to pay principal and interest.

Northland will work with City staff on the day of pricing to determine use of premium (if any).

### **Rating**

The Bonds will not be rated.

## Attachment 4 – Calendar of Events

November 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

December 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

January 2022						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

February 2022						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28					

Date	Action	Responsible Party
November 10 <sup>th</sup>	Finance Plan and Trigger Resolution Sent to the City	Northland
November 17 <sup>th</sup>	Presentation of Finance Plan Trigger Resolution Adopted	<b>City Council Action,</b> Northland
December 17 <sup>th</sup>	Preliminary Official Statement Sent to City for Sign Off	Northland, City
January 12 <sup>th</sup>	Awarding Resolution sent to City	Northland, Bond Counsel
January 19 <sup>th</sup>	Pricing Date  Bond Purchase Contract Signed and Awarding Resolution adopted – 7:00 p.m.	Northland
February 16 <sup>th</sup>	Closing on the Bonds (Proceeds Available)	Northland, City Staff, Bond Counsel

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## Attachment 5 - Risk Factors

Property Taxes: Property tax levies shown in this Finance Plan are based on projected debt service and other revenues. Final levies will be set based on the results of sale. Levies should be reviewed annually and adjusted as needed. The debt service levy must be included in the preliminary levy for annual Truth in Taxation hearings. Future Legislative changes in the property tax system, including the imposition of levy limits and changes in calculation of property values, would affect plans for payment of debt service. Delinquent payment of property taxes would reduce revenues available to pay debt service.

General: In addition to the risks described above, there are certain general risks associated with the issuance of bonds. These risks include, but are not limited to:

- Failure to comply with covenants in bond resolution.
- Failure to comply with Undertaking for continuing disclosure.
- Failure to comply with IRS regulations, including regulations related to use of the proceeds and arbitrage/rebate. The IRS regulations govern the ability of the City to issue its bonds as tax-exempt securities and failure to comply with the IRS regulations may lead to loss of tax-exemption.